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January 26, 2005

**VIA HAND DELIVERY**

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JAN 26 2005

PUBLIC SERVICE  
COMMISSION

Elizabeth O'Donnell  
Executive Director  
Public Service Commission of Kentucky  
211 Sower Boulevard  
Frankfort, Kentucky 40602

Case 2005-00046

**Re: Application of Louisville Gas and Electric Company for an Order  
Authorizing the Issuance of Securities and the Assumption of Obligations**

Dear Ms. O'Donnell:

Enclosed for filing please find the original and ten copies of the Application of Louisville Gas and Electric Company for an Order pursuant to KRS 278.300.

An extra copy of the Application is also enclosed to be file stamped and returned to the undersigned.

Please do not hesitate to contact me if you have any questions or require additional information.

Very Truly Yours,

J. Wade Hendricks

JWH/cjg

Enclosures

cc: Elizabeth E. Blackford  
Daniel Arbough  
Kent Blake  
Elizabeth Cocanougher  
John Fendig  
Roger Hickman  
Elliott Horne

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JAN 26 2005

PUBLIC SERVICE  
COMMISSION

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

**In The Matter Of:**

THE APPLICATION OF LOUISVILLE GAS )  
AND ELECTRIC COMPANY FOR AN )  
ORDER AUTHORIZING THE ISSUANCE OF )  
SECURITIES AND THE ASSUMPTION OF )  
OBLIGATIONS )

CASE NO. 2005- 00046

**APPLICATION**

Louisville Gas and Electric Company ("LG&E" or the "Company") hereby requests, pursuant to KRS 278.300, that the Commission authorize the issuance of securities, assumption of obligations and entrance into all necessary agreements and other documents relating thereto as more fully described herein. In support of this Application, LG&E states as follows:

1. The Company's full name is Louisville Gas and Electric Company. The post office address of the Company is 220 West Main Street, Louisville, Kentucky 40202. LG&E is a Kentucky corporation, a utility as defined by KRS 278.010(3)(a) and (b), and provides retail electric service to approximately 391,000 customers and retail gas service to approximately 318,000 customers in seventeen counties in Kentucky. A description of LG&E's properties is set out in Exhibit 1 to this Application. A certified copy of the Company's Articles of Incorporation was filed with the Commission in Case No. 2001-104 (The Joint Application of E.ON AG, Powergen plc, LG&E Energy Corp., Louisville Gas and Electric Company, and Kentucky Utilities Company for Approval of an Acquisition) and a certified copy of subsequent amendments to the Company's Articles of Incorporation was filed with the Commission in Case No. 2003-00433 (In the Matter of: An Adjustment of the Gas and Electric Rates, Terms and Conditions of Louisville Gas and Electric Company) and both are incorporated herein.

2. This Application relates to the proposed refinancing of the Company's outstanding issue of County of Jefferson, Kentucky, Pollution Control Revenue Bonds 1995 Series A (Louisville Gas and Electric Company Project), due April 15, 2023, (the "Existing Bonds") secured by LG&E's First Mortgage Bonds, Pollution Control Series X of corresponding maturity (the "Existing First Mortgage Bonds").

LG&E was authorized to undertake its obligations in regard to the Existing Bonds and the Existing First Mortgage Bonds by Order of the Commission dated July 28, 1993, in Case No. 93-223. The Existing Bonds and related Existing First Mortgage Bonds were used to provide financing to refund the County of Jefferson, Kentucky, Pollution Control Revenue Bonds, 1985 Series A (Louisville Gas and Electric Company Project) (the "1985 Bonds") authorized by the Commission in Case No. 9356. The 1985 Bonds and related LG&E First Mortgage Bonds Series J, were applied to provide financing for a portion of the costs of acquiring, constructing, and installing certain air pollution control facilities in connection with the Company's Mill Creek and Cane Run Generating Stations located in Jefferson County, Kentucky. Components of this project included major reconstructions and modifications for sulphur dioxide removal systems serving generating units at the Mill Creek and Cane Run Stations. This construction is described more particularly in the records of Case Nos. 93-223, and 9356 which are incorporated by reference herein.

In connection with this proposed refinancing, the Company requests authority to (i) assume certain obligations under various agreements relating to the refunding of the Existing Bonds in an aggregate principal amount not to exceed \$40,000,000 and (ii) issue the Company's First Mortgage Bonds in an aggregate principal amount not to exceed \$40,000,000 to

collateralize the proposed new refunding bonds all as more particularly described herein (the “Refunding Bonds”).

The purpose for refinancing the Existing Bonds is to take advantage of currently prevailing, historically low interest rates and thereby reduce LG&E’s costs of debt over the life of the bonds. The Existing Bonds currently bear interest at the rate of 5.90% per annum. Based on current interest rates, the Company expects that Refunding Bonds (as hereinafter defined) could be issued initially at lower rates, whether variable or fixed, providing interest rate savings (see the net present value savings analysis attached hereto as Exhibit 2). The Existing Bonds also may be candidates for extension of maturity, which, if permissible, would preserve use of the tax-exempt funding source. LG&E is investigating whether, based upon factors including engineering studies relating to the remaining expected useful lives of the subject pollution control facilities, it will be possible to extend the maturity of the proposed Refunding Bonds, to a later date, which may not exceed 30 years from the issuance date of the Refunding Bonds. Any such extension would allow the continued use of low-cost tax-exempt financing beyond the current maturity of the Existing Bonds, further reducing costs which directly benefits the Company’s customers. While federal law does not presently permit new facility air and water pollution control financing on a tax-exempt basis, federal law does permit the issuance of pollution control bonds to refund outstanding pollution control bonds within 90 days prior to the date of redemption and discharge of the existing pollution control bonds and also permits the extension of bond maturities within certain limits governed by applicable federal tax law. Such refunding issues may not exceed in principal amount the outstanding principal amount of pollution control revenue bonds being refunded.

The following table shows (i) the initial public offering price, (ii) proceeds to LG&E from the sale (after deducting underwriting discounts and commissions) and (iii) LG&E's expenses associated with the sale of the Existing Bonds:

	Public Offering Price	Proceeds	Expenses
County of Jefferson, Kentucky Pollution Control Revenue Bonds, 1995 Series A	\$40,000,000	\$39,298,000	\$233,000

The Existing Bonds are subject to redemption, upon at least thirty (30) days prior notice, at 102% of their principal amount beginning on April 15, 2005.

3. In November 2000, the voters of Jefferson County voted to consolidate the governmental and corporate functions of Jefferson County and the City of Louisville into a new form of government known as Louisville/Jefferson County Metro Government ("Metro Government"). The Metro Government commenced operations on January 6, 2003 and replaced and supersedes the government of the prior County and City. The authorizing laws provide for mandatory assumption by the Metro Government of all existing contract obligations of the prior County and City and the Metro Government will accordingly be the governmental issuer of the proposed Refunding Bonds.

In connection with the refinancing of the Existing Bonds, LG&E would assume certain obligations under one or more loan agreements with the Metro Government and may enter into guaranty agreements, bond insurance agreements and other similar undertakings guaranteeing repayment of all or any part of the obligations under the Refunding Bonds for the benefit of the holders of such bonds.

LG&E requests authority to assume certain obligations under various agreements in an aggregate principal amount not to exceed \$40,000,000 in connection with the proposed issuance of one or more series of new Metro Government Refunding Bonds. The Metro Government has

express statutory authority to issue the Refunding Bonds pursuant to KRS 103.220(5). LG&E proposes to assume such obligations in connection with the refinancing of the Existing Bonds. The proceeds of the Refunding Bonds would be loaned to LG&E by the Metro Government to provide funds to redeem and discharge the Existing Bonds, which would be carried out within 90 days of the issuance of the Refunding Bonds.

4. LG&E anticipates that the refinancing will employ LG&E's New First Mortgage Bonds (as hereinafter defined) to collateralize and secure the Refunding Bonds. LG&E's New First Mortgage Bonds would replace the Existing First Mortgage Bonds, which presently secure the Existing Bonds. The structure and documentation for the issuance of LG&E's New First Mortgage Bonds and related agreements will be similar to the structure and documentation of other recent pollution control financings of LG&E approved by this Commission involving LG&E's First Mortgage Bonds. LG&E's New First Mortgage Bonds will be issued in like amount to the Refunding Bonds and would be used to secure its payment obligations under the Refunding Bonds. LG&E therefore requests authority to issue its New First Mortgage Bonds, Pollution Control Series HH and subsequent series, if required (collectively the "New First Mortgage Bonds") in one or more series in an aggregate principal amount not to exceed \$40,000,000 to carry out such collateralization. The New First Mortgage Bonds would be delivered to one or more corporate trustees under indentures of trust between the Metro Government and such trustee (each a "Trustee"), in connection with the issuance and sale by the Metro Government of its Refunding Bonds. The New First Mortgage Bonds would be held by the Trustees to secure payment of the Refunding Bonds and payment by LG&E of all sums payable by LG&E as discussed below. The New First Mortgage Bonds will be issued pursuant to one or more supplemental indentures, each of which would be a supplement to the Trust

Indenture dated November 1, 1949, between LG&E and BNY Midwest Trust Company, as successor trustee, as heretofore amended and supplemented. The New First Mortgage Bonds would have a maturity date corresponding to the Refunding Bonds, not to exceed 30 years from date of issuance.

5. The Refunding Bonds would be issued pursuant to one or more indentures (each an "Indenture"), between the Metro Government and the Trustee. The proceeds from the sale of the Refunding Bonds would be loaned to LG&E pursuant to one or more loan agreements between the Metro Government and LG&E (collectively the "Loan Agreement").

The payments to be made by LG&E under the Loan Agreement for the Refunding Bonds, together with other funds available for the purpose, would be required to be sufficient to pay the principal and interest on such Refunding Bonds. The Loan Agreement and the payments to be made by LG&E pursuant thereto will be assigned to the Metro Government to secure the payment of the principal and interest on the Refunding Bonds.

6. The Refunding Bonds would be sold in one or more underwritten public offerings, negotiated sales, or private placement transactions utilizing the proper documentation. Their price, maturity date(s), interest rate(s), redemption provisions and other terms and provisions of the Refunding Bonds (including, in the event all or a portion of the Refunding Bonds initially bear a variable rate of interest, the method for determining the interest rate) would be determined on the basis of negotiations among LG&E, the Metro Government, and the purchasers of such bonds. However, the amount of compensation to be paid to underwriters for their services would not exceed two percent (2%) of the principal amount of the Refunding Bonds to be sold. Based upon past experience with similar refinancings, LG&E estimates the

bond insurance and issuance costs, excluding underwriting fees for the Refunding Bonds, will be approximately \$1,620,000.

7. Because of the historical spread between long-term fixed interest rates and short term rates, all or a portion of the Refunding Bonds may be issued initially with interest rates that fluctuate on a weekly, monthly or other basis as determined from time-to-time by LG&E, including issuance of auction rate mode Refunding Bonds, which may be coupled with bond insurance. Depending on market conditions, fixed rate bonds for a portion of the financing may be issued. Fixed rate bonds would avoid increased exposure to interest rate fluctuations. LG&E would reserve the option to convert any variable rate Refunding Bonds at a later date to other interest rate modes, including a fixed rate of interest. Refunding Bonds that bear interest at a variable rate (the "Variable Rate Refunding Bonds") also may be issued subject to tender by the holders thereof for redemption or purchase. In order to provide funds to pay the purchase price of such tendered Variable Rate Refunding Bonds, LG&E would enter into one or more remarketing agreements with one or more remarketing agents whereby the remarketing agent would use its best efforts to remarket such tendered Variable Rate Refunding Bonds to other purchasers at a price equal to the purchase price of such Variable Rate Refunding Bonds, which will be 100% of the par amount of such Variable Rate Refunding Bonds. Thus, to the extent Variable Rate Refunding Bonds are issued, the documentation will be similar to previous bonds that were issued with a variable interest rate.

8. Also, in the event that Variable Rate Refunding Bonds are issued, LG&E may enter into one or more liquidity facilities (the "Current Facility") with a bank or banks to be selected by LG&E (the "Bank"). The Current Facility would be a credit agreement designed to provide LG&E with immediately available funds with which to make payments with respect to

any Variable Rate Refunding Bonds that have been tendered for purchase and not remarketed. The Current Facility may, but is not expected to be pledged for the payment of the Variable Rate Refunding Bonds or to constitute security therefore. The Current Facility may consist in whole or in part of such liquidity facilities. Pursuant to the Current Facility, LG&E may be required to execute and deliver to the Bank a note evidencing LG&E's obligations to the Bank under the Current Facility.

In order to obtain terms and conditions more favorable to LG&E than those provided in the Current Facility or to provide for additional liquidity or credit support to enhance the marketability of the Variable Rate Refunding Bonds, LG&E may desire to be able to replace the Current Facility with (or to initially use) one or more substitute liquidity support and/or credit support facilities (the instrument providing the liquidity support and/or credit support and any subsequent replacement support facility thereof, including any replacement facility which replaces a replacement facility, is hereinafter referred to as a "Facility") with one or more banks, insurance companies (including municipal bond insurance companies) or other financial institutions to be selected by LG&E from time to time (each such financial institution hereinafter referred to as a "Facility Provider"). A Facility may be in the nature of a letter of credit, revolving credit agreement, standby credit agreement, bond purchase agreement, bond insurance or other similar arrangement designed to provide liquidity and/or credit support for the Variable Rate Refunding Bonds. It is contemplated that, in the event the Variable Rate Refunding Bonds are converted to bear interest at a fixed rate, the Current Facility (if not already replaced or terminated) or, if applicable, the Facility (unless earlier terminated) will be terminated in whole or in part following the date of conversion of such series of Variable Rate Refunding Bonds. The estimated cost of the refinancing shown in Section 6 does not include expenses incurred for

entering into any Facility, however the impact on the overall cost of the refinancing would be approximately 25 basis points.

9. In connection with any Facility, LG&E may enter into one or more credit or similar agreements (“Credit Agreements”) with the Facility Provider or providers of such facility, which would contain the terms of reimbursement or payment to be made by LG&E to the subject Facility Providers for amounts advanced by the Facility Providers under the particular Facility. Depending on the exact nature of a Facility, LG&E may be required to execute and deliver to the subject Facility Provider a promissory note (each such note hereinafter referred to as a “Facility Note”) evidencing LG&E’s repayment obligations to the Facility Provider under the related Credit Agreement; and the Trustee under the Indenture for the Variable Rate Refunding Bonds may be authorized, upon the terms set forth in such Indenture and any Credit Agreement, to draw upon the Facility for the purpose of paying the purchase price of Variable Rate Refunding Bonds tendered or required to be tendered for purchase in accordance with the terms of the Indenture which are not remarketed by the remarketing agent as provided in the remarketing agreement and/or for the purpose of paying accrued interest on the Variable Rate Refunding Bonds when due and paying principal, whether at maturity, upon redemption, acceleration or otherwise.

10. In connection with the issuance of the Refunding Bonds, LG&E may enter into one or more interest rate hedging agreements (including an interest rate cap, swap, collar or similar agreement, collectively the “Hedging Facility”) with a bank or financial institution (the “Counterparty”). The Hedging Facility would be an interest rate agreement designed to allow LG&E to actively manage and to limit its exposure to variable interest rates or to manage its overall borrowing costs on any fixed rate Refunding Bonds. The Hedging Facility will set forth

the specific terms upon which LG&E will agree to pay the Counterparty payments and/or fees for limiting its exposure to interest rates or lowering its fixed rate borrowing costs, and the other terms and conditions of any rights or obligations thereunder. The estimated cost of the refinancing does not include the costs of any Hedging Facility, which would be determined at the time of the hedge. However, based on current market conditions, the cost of a 3-year hedge would be approximately 130 basis points.

The terms of each Facility, each Credit Agreement, each Facility Note and each Hedging Facility would be negotiated by LG&E with the respective Bank, Facility Provider or Counterparty and would be the most favorable terms that can be negotiated by LG&E. The aggregate outstanding principal amount of the obligations of LG&E at any time under the Loan Agreement, and the Credit Facilities and related notes set forth in the immediately preceding sentence will not exceed the original aggregate principal amount of the Refunding Bonds (which will not exceed an aggregate principal amount of \$40,000,000) plus accrued but unpaid interest and premium, if any, on such bonds.

11. No contracts have been made for the disposition of any of the securities which LG&E proposes to issue, or for the proceeds of such sale.

12. Attached as Exhibit 3 to this Application are copies of the pertinent sections of the official statement describing the redemption provisions for the Existing Bonds.

13. LG&E shall, as soon as reasonably practicable after the issuance of the Refunding Bonds referred to herein, file with the Commission a statement setting forth the date or dates of issuance of the securities, the price paid therefore, the interest rate(s) (and, if applicable, their method of determination), and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution.

14. Exhibit 4 to this Application contains the financial exhibit required by 807 KAR 5:001, Section 11(2)(a), as described by 807 KAR 5:001, Section 6. It also contains information required by 807 KAR 5:001, Section 11(2)(b).

15. Exhibit 5 to this Application is a certified copy of LG&E's Board of Directors resolution authorizing the issuance of the First Mortgage Bonds, the assumption of obligations under the Loan Agreement, and all transactions related thereto and discussed in this Application.

16. Other requirements of the Commission's regulation regarding this Application, 807 KAR 5:001, Section 11, including (1)(b) regarding the amount and kind of notes, etc., and (1)(c) regarding the use to be made of the proceeds, have been supplied in the extensive discussion above in Sections 2 through 10 of this Application. Interest rates are at attractive levels. In order to take advantage of these levels and any further improvement of the capital markets, the Company respectfully requests that the Commission process this Application as expeditiously as practicable to afford the Company maximum flexibility in connection with this refinancing.

WHEREFORE, Louisville Gas and Electric Company respectfully requests that the Commission enter its Order, in the form of the Proposed Order attached as Exhibit 6, authorizing it to issue securities and to execute, deliver and perform the obligations of LG&E under the Loan Agreement, and any Remarketing Agreements, and Credit Agreements and the various Credit and Hedging Facilities and other documents and related notes set forth in this Application. Louisville Gas and Electric Company further requests that the order of the Commission specifically include provisions stating:

1. LG&E is authorized to issue and deliver the new First Mortgage Bonds in an aggregate principal amount not to exceed \$40,000,000 in the manner set forth in its application.

2. LG&E is authorized to execute, deliver and perform the obligations of LG&E under, inter alia, the loan agreement(s) with the Metro Government, and under any remarketing agreements, hedging agreements, auction agreements, bond insurance agreements, guaranty agreements, credit agreements and facilities, and such other agreements and documents as set out in its application, and to perform the transactions contemplated by such agreements.

Respectfully submitted,

  
Kendrick R. Riggs

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